ERESEARCHTECHNOLOGY INC /DE/
Form 10-K
March 07, 2008

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2007

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 0-29100

eResearchTechnology, Inc.

(Exact name of issuer as specified in its charter)

Delaware	**22-3264604**
(State of Incorporation)	(I.R.S. Employer Identification No.)
30 South 17th Street Philadelphia, PA	**19103**
(Address of Principal Executive Offices)	(Zip Code)

(215) 972-0420
Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	**Name of Each Exchange on Which Registered**
Common Stock, $.01 par value	**The Nasdaq Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of June 30, 2007, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $380,689,713 based on the closing sale price as reported on the Nasdaq Global Select Market.

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Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at February 26, 2008
Common Stock, $.01 par value per share	50,623,172 shares

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference from the registrant s definitive proxy statement for its 2008 Annual Meeting of Stockholders, to be filed with the Commission pursuant to Regulation 14A.

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PART I

ITEM 1. BUSINESS

General

eResearchTechnology, Inc. (eRT), a Delaware corporation, was founded in 1977 to provide Cardiac Safety services to evaluate the safety of new drugs. eRT and its consolidated subsidiaries collectively are referred to as the Company or we. We provide technology and services that enable the pharmaceutical, biotechnology and medical device industries to collect, interpret and distribute cardiac safety and clinical data more efficiently. We are a market leader in providing centralized electrocardiographic services (Cardiac Safety services or EXPeRT® ECG services) and a leading provider of technology and services that streamline the clinical trials process by enabling our clients to evolve from traditional, paper-based methods to electronic processing using our EXPeRT® eClinical and EXPeRT® ePRO products and services.

Our solutions improve the accuracy, timeliness and efficiency of trial set-up, data collection from sites worldwide, data interpretation, and new drug, biologic and device application submissions. We offer Cardiac Safety services, which are utilized by pharmaceutical companies, biotechnology companies, medical device companies, clinical trial sponsors and clinical research organizations (CROs) during the conduct of clinical trials. The Cardiac Safety services are performed during all phases of a clinical trial cycle and include the collection, interpretation and distribution of electrocardiographic (ECG) data and images. The ECG provides an electronic map of the heart s rhythm and structure, and typically is performed in most clinical trials. Cardiac Safety services permit assessments of the safety of therapies by documenting the occurrence of cardiac electrical change. Thorough QTc studies are comprehensive studies that typically are of large volume and of short duration, with ECGs performed over a two- to six-month period. We also offer site support, which includes the rental and sale of cardiac safety equipment along with related supplies and freight. Additionally, we offer the licensing and, at the client s option, hosting of our proprietary EXPeRT® eClinical software products and the provision of maintenance and consulting services in support of our proprietary EXPeRT® eClinical software products. We offer electronic patient reported outcomes (ePRO) services along with 57 proprietary clinical assessments.

We conduct our operations through offices in the United States (U.S.) and the United Kingdom (UK). Our international net revenues represented approximately 20%, 21% and 23% of total net revenues for the years ended December 31, 2005, 2006 and 2007, respectively. The majority of our revenues are allocated based upon the profit split transfer pricing methodology, and revenues are generally allocated to the geographic segment where the work is performed.

Recent Transactions

On November 28, 2007, we acquired Covance Cardiac Safety Services, Inc. (CCSS), the centralized ECG business of Covance Inc. (Covance). CCSS is engaged primarily in the business of processing electrocardiograms in a digital environment as part of clinical trials of pharmaceutical candidates to permit assessments of the safety of therapies by documenting the occurrence of cardiac electrical change. Under the terms of the Purchase Agreement, we purchased all of the outstanding shares of capital stock of CCSS in consideration of an upfront cash payment of $35.2 million plus additional cash payments of up to approximately $14 million, based upon our potential realization of revenue from the backlog transferred and from new contracts secured through Covance s marketing activities. During 2007, Covance earned $3.0 million of this contingent amount, which we paid in January 2008. The final net proceeds to Covance are further subject to certain post-closing working capital adjustments. As previously reported, the

acquisition included a marketing agreement under which Covance is obligated to use us as its provider of centralized cardiac safety services, and to offer these services to Covance s clients, on an exclusive basis, for a 10-year period, subject to certain exceptions. We will pay Covance a portion of the revenues we receive during each calendar year of the 10-year term that are based primarily on referrals made by Covance under the agreement. The agreement does not restrict our continuing collaboration with our other key CRO, Phase I units, Academic Research Centers and other strategic partners. We believe that the CCSS acquisition will enhance our revenues and, when fully integrated, our profitability because it will permit us to better leverage our personnel and technology.

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In the second quarter of 2007, we announced that we were launching a new line of business focused on electronic patient reported outcomes (EXPeRT® ePRO™) and entered into a long-term strategic relationship with Healthcare Technology Systems, Inc. (HTS), a leading authority in the research, development and validation of computer administered clinical rating instruments. The strategic relationship includes the exclusive licensing (subject to one pre-existing license agreement) of 57 IVR clinical assessments offered by HTS along with HTS s interactive voice response, or IVR system. We placed the system into production in December 2007. As of December 31, 2007, we paid HTS $1.5 million for the license and a $0.25 million advanced payment against future royalties. We will pay royalties to HTS based on the level of revenues we receive from the assessments and the IVR system. An additional $0.75 million of royalty payments are guaranteed, and will be made in two equal payments in November 2008 and May 2009. Any royalties earned by HTS will be applied against these payments. After these two payments are made, all future payments we make to HTS will be royalty payments based solely on revenues we receive from EXPeRT® ePRO™ sales.

Product and Service Offerings

Our revenues as a percentage of total revenues is as follows:

	Year Ended December 31,		
	2005	**2006**	**2007**
Net revenues:			
Licenses	7.0%	3.5%	2.7%
Services	68.8	64.0	70.5
Site support	24.2	32.5	26.8
Total net revenues	100.0	100.0	100.0

Our license revenues consist of license fees for perpetual license sales and monthly and annual term license sales for our EXPeRT® eClinical and EXPeRT® ePRO™ products. Our services revenues consist of EXPeRT® Cardiac Safety services, technology consulting and training services and software maintenance services. The technology consulting and training services and software maintenance services are related to our EXPeRT® eClinical and EXPeRT® ePRO™ products. Our site support revenue consists of cardiac safety equipment rentals and sales along with related supplies and freight.

Product/Services	Description
EXPeRT® Cardiac Safety	Diagnostic tests are employed in clinical trials to measure the effect of the product on certain body organs and systems in order to determine the product s safety. Cardiac safety testing is a critical component of diagnostic testing. eRT provides a highly scalable set of Cardiac Safety products and services centered on our regulatory compliant (Title 21 CFR, Part 11) EXPeRT® Cardiac Safety Intelligent Data Management System. EXPeRT® provides for workflow enabled cardiac safety data collection, interpretation and distribution of ECG data and images. EXPeRT®

also enables analysis and cardiologist interpretation of ECGs performed on research subjects in connection with our clients clinical trials.

EXPeRT® is designed specifically to address global regulatory guidance and technical standards for digital ECG processing to include digital collection, waveform measurements and annotations, review and output to the regulatory standard file format. EXPeRT®

includes the ability for ECGs to be viewed as side-by-side ECG images for comparison, supplemented by the ability to review prior patient ECG tracings.

EXPeRT® further enhances our ECG services by permitting cardiologists, with training in our ECG interpretation guidelines and proper security access, to perform telecardiology, which is the ability to access and evaluate ECGs electronically in remote locations. We also establish rules for standardized,

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semi-automated and automated workflow management, allowing audit trail accounting and generating safety and operational metrics reports for sponsors and investigators.

We provide the following centralized ECG testing services as part of our EXPeRT®

Cardiac Safety services:

Digital ECG Services. Allows the investigator to transmit, via modem, 12-lead ECG data directly to us for interpretation and rapid return of results to the investigator and the sponsor. ECGs are measured by our cardiac safety specialists utilizing an on screen, high-resolution caliper placement system, and are then interpreted by a cardiologist. We also offer cardiac safety specialist and cardiologist adjudication of software algorithm placed measurements where appropriate and as desired by our clients.

Continuous Digital 12-lead ECG Recording. The 12-lead ECG signals are recorded onto compact flash memory cards and submitted to us. From these recordings, 12-lead ECGs can be evaluated at specific time points. These ECGs are measured by a cardiac safety specialist and then interpreted by a cardiologist. Continuous digital 12-lead ECG recordings can also be used for studies assessing the incidence of arrhythmias, cardiac ischemia and/or heart rate variability findings.

Holter Recording. This is a continuous ECG recording of the heart s rhythm on a flash card that is reviewed by a cardiac safety specialist and then by a cardiologist. Holter data reported by us is provided for studies assessing the incidence of arrhythmias, cardiac ischemia and/or heart rate variability.

Paper ECG Services. Paper ECGs are measured by our cardiac safety specialists utilizing a high-resolution digitizing system, and are then interpreted by a cardiologist. Alternatively, paper ECGs may be scanned to a digital format, where appropriate.

FDA XML ECG Service. This service provides our clients with electronic versions of each ECG processed by EXPeRT®. The ECGs processed by EXPeRT®

are rendered in a format compliant with the United States Food and Drug Administration s (FDA) XML standard for digital ECGs.

The EXPeRT®

Direct. This is a hosted solution, which delivers near real time cardiac safety feedback at the program, trial, center and patient level, along with related metrics, such as trial enrollment, as well as the ability to organize and publish a variety of study-specific information and the ability to link data points in reports direct to digital ECG waveforms.

	Cardiac Safety Equipment. We provide ECG equipment to clients to perform the ECG and Holter recordings and give them the means to send such recordings to eRT. The service comprises equipment rental and sales, along with related supplies and freight.
Cardiac Safety Consulting	The centralization of electrocardiograms in clinical research has become increasingly important to organizations involved in the development of new drugs. Global regulators each apply their own slightly different interpretation of the International Conference on Harmonization E14 guidelines and as a result sponsors look to their vendors to provide key scientific input into the overall process. Our cardiac safety consulting service aids sponsors in the development of protocol synopses, the creation and analysis of statistical plans as well as the provision of an expert medical report with regard to the cardiac findings. We are

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involved in all phases of clinical development from a consultancy point of view. We offer this service both as a stand-alone service and integrated with our full suite of Cardiac Safety services.

EXPeRT® eClinical

The process of designing, implementing and managing a clinical trial requires a well defined process and set of supporting products to effectively handle the variety of tasks and information comprising a clinical trial. We provide a suite of products to address the capture, management and dissemination of clinical trial data. Our integrated suite is comprised of the following:

EXPeRT Portal is an easy to use portal application enabling clinical trial researchers and staff to gain real-time access to study dashboards, progress reports, folders and forums enabling efficient management and communication of study progress. EXPeRT®

Portal also includes a web-based training environment, eHealth Education™ , which enables clinical research professionals to learn about technology developments, new products, clinical protocols, and other educational matters.

EXPeRT EDC Now! uses the latest technology to provide a comprehensive electronic data capture (EDC) system which provides sponsors with the ability to roll out electronic studies in short time frames. This rapid time to start combined with a fixed price and scope approach helps sponsors realize the benefits of EDC without the risks normally associated with the typical EDC process.

EXPeRT Data Management is a clinical data management application for collecting, cleaning and managing clinical trial data.

EXPeRT Adverse Event Reporting is an adverse event management system enabling the generation of key regulatory reports, including CIOMS and Medwatch.

EXPeRT Trial Management is a clinical trial management technology that can be used to set up clinical trials, establish standards, track study activities, plan resources, distribute supplies, manage the financial aspects of a trial and electronically view clinical trial data.

Our EXPeRT® eClinical solution is available for license over a renewable term (subscription license) in addition to a traditional perpetual license with annual maintenance. Our EXPeRT®

eClinical offerings may be hosted by us or one of our third- party hosting partners, or they may be installed on our client s computing infrastructure.

EXPeRT® ePRO

Data is collected during clinical trials allowing sponsors to gauge the efficacy of the compounds they are testing. Collecting data directly from the patient can be performed in a number of different methods, including electronically. We provide an electronic patient reported outcome (ePRO) service that performs this function for sponsors. Our solution consists of the following tools and services:

Data Collection Our EXPeRT®

ePRO

solution is an IVR system that allows subjects in a clinical trial to call into the system via a telephone and enter their reported data directly into the system.

Data Management Once the data has been entered into the EXPeRT®

ePRO

system there are a number of data management functions that can be performed depending on the requirements of the sponsor. This includes sending call reports to the sites, sending call reports to the sponsor, alerting the sites if data is outside

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	specifically set boundaries, web access to the data by the sponsor, and cleaning of data per the specs provided by the sponsor. *Data Delivery* At the conclusion of the study, the data is compiled and then delivered according to the sponsor requirements. This can include SAS exports, ASCII exports, electronic file transfers and data delivery on digital media.
Project Assurance/ Implementation Assurance	We provide a full spectrum of consulting services for all of our products that augment the study management and implementation efforts of clients in support of their clinical research requirements. The methodologies (Project Assurance for Cardiac Safety and Implementation Assurance for EXPeRT®
	eClinical and EXPeRT®
	ePRO Applications) provide a consistent framework through which we can effectively manage the delivery of all products and services. Such methodologies provide the standards, guidelines and services that allow us to effectively anticipate our clients needs and assure proactive communication and implementation in order to meet and exceed our clients goals. The services include study initiation, project management, education, site qualification, configuration, technology and regulatory review, research dashboards and electronic reporting, data management, uniform standards and standard operating procedures, and migration services. In addition, we provide on-site research and technology advisory services, support services including online and help desk support, and software maintenance.

Research and Development

Overview

As of December 31, 2007, we had 41 employees engaged in research and development across all our product areas. The central approach of our research and development team is to foster a close relationship with our customers and internal users to ensure we continue to deliver industry leading capabilities across all product lines. Our proprietary and patented technology is designed to materially enhance the abilities of our customers and internal users to efficiently and securely capture and process clinical data, to ensure regulatory compliance and to offer scalability to support the largest of clinical studies in a timely manner.

Technology

Our product applications use underlying industry standard technologies including Java for application layer development and Oracle 10g for database services, Our system development lifecycle process features best practices in the areas of requirements capture, software design and development. Our philosophy of using industry-standard tools allows us to focus our attention on the features and functions delivered through the client interface and the application layer in order to meet our clients strategic business requirements.

2007 Product Initiatives

During 2007, we delivered and launched major product initiatives across each product line as follows:

We launched EXPeRT® 2 in January 2007 to drive our global cardiac safety operations. The system experienced no software outages during the year, attesting to the quality of the development process. The system is configured to enable scalability to meet our current and future capacity needs and performance levels to ensure we meet contracted turn-around-times. A backup data center is also configured for quick start-up should any issue arise with the primary data center facility. EXPeRT® 2 provides a patented and comprehensive set of enhancements that extend our flexibility to meet customer-unique demands, enhance our operational efficiencies and increase our global scalability. To further embrace customer requests, EXPeRT® 2 provides such features as on-demand reporting, protocol-unique clinical alerts and auto-assignment of cardiologists to subjects. Operational efficiency is enhanced by the use of standardized protocol templates, protocol versioning, new management and workflow features, and enhanced query automation.

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EXPeRT® Direct is our latest generation of portal technology providing our cardiac safety customers with an easy to use portal for dashboards, reports and viewing of individual ECG waveforms and annotations. The portal also features functionalities for self-service administration.

EXPeRT® eClinical features a set of fully-integrated products spanning portal, eDC, data management, safety reporting and trial management functionalities and services. This suite of products was designed for installation at customer sites or hosting by eRT at our secure data center. During 2007, development was completed on a set of usability enhancements, CDISC compliance, a new safety reporting product and a new eClinical portal.

We launched EXPeRT® ePRO during 2007, featuring an IVR product and a set of electronic assessments. We also developed and configured reporting and portal enhancements in preparation for the fourth quarter 2007 product launch.

Our Clients

We serve pharmaceutical, biotechnology and medical device companies as well as CROs. We have agreements that establish the overall contractual relationship between us and our clients with approximately 275 customers for active or upcoming projects. We provide our solutions to 41 of the 50 largest pharmaceutical companies globally and 10 of the top 10 largest pharmaceutical companies globally. In 2007, Novartis AG, at 24%, was the only client that accounted for 10% or more of our consolidated net revenues. Novartis accounted for 16% and 13% of our consolidated net revenues in 2006 and 2005, respectively.

Sales and Marketing

We market and sell products and services primarily through our global direct sales, sales support and professional services organizations. As of December 31, 2007, our business development team consisted of 48 sales, marketing and consulting professionals worldwide, which included a direct sales force of 26 sales professionals located globally and excluded employees of CCSS.

We focus our marketing efforts on educating our target market, generating new sales opportunities and increasing awareness of our solutions. We conduct a variety of marketing programs globally, including vendor days at clients offices, business seminars, trade shows, public relations, industry analyst programs and advisory councils.

Our sales cycle generally begins with proactive business development within our active customer base as well as outreach to new customers identified through prospecting and marketing efforts. The sales process may include our response to a request from a sponsor or CRO for a proposal to address a client-specific research requirement. We then engage at our expense in a series of meetings, consultations, workshops, implementation reviews, final proposals and contract negotiations prior to the time when the prospective client has any obligation to purchase our products or services. During this process, we involve our sales, professional services and senior management personnel in a collaborative approach. Our sales cycle can vary from a few weeks to greater than one year, depending upon the scope of the clinical trial or program, the sponsor s budgeting process, which of our products or services are being sold, and the final agreed-upon solution required to support the clinical trial or program.

Partnerships

We have formalized agreements with clinical pharmacology units (CPUs), CROs, imaging core laboratories and other third-party service providers around the globe, including geographic and cultural specialization in Asia. We structure our integrated partnership offering to provide meaningful service enhancements for partners and sponsors. Enhanced communications and experienced collaboration with numerous partners promote speed, accuracy and reliability of

data collection and reporting and quality study conduct.

Competition

While there has been some consolidation in our industry, the market for our products and services remains extremely fragmented, with hundreds of companies providing niche solutions to satisfy small parts of the clinical

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research process. We were the first company to utilize specifically developed technology to address the digital regulatory initiative in providing ECG services.

The market for our solutions is intensely competitive, continuously evolving and subject to rapid technological change. The intensity of competition has increased and is expected to further increase in the future. This increased competition could result in price reductions, reduced gross margins and loss of market share, any one of which could seriously harm our business. Competitors, including centralized cardiac safety laboratories and CROs, vary in size and in the scope and breadth of the products and services offered.

We believe that the principal competitive factors affecting our market include:

client service;

a significant base of reference clients;

breadth and depth of solution, including the ability to accommodate both electronic forms and manual, paper-based research methods of data collection, management and analysis;

product quality and performance;

scientific expertise;

core technology and product features;

ability to implement solutions;

capacity;

price;

financial and organizational stability; and

ability to adapt to changing regulatory guidance.

We believe that our solutions currently compete favorably with respect to these factors, and we will continue to strive to maintain our competitive edge in the marketplace.

Government Regulation

Human pharmaceutical products, biological products and medical devices are subject to rigorous government regulation. In the United States, the principal federal regulatory agency is the FDA and there are some similar state agencies. Foreign governments also regulate these products when they are tested or marketed abroad. In the United States, the FDA has established standards for conducting clinical trials leading to the approval for new products.

Because our products and services assist the sponsor or CRO in conducting the trial and preparing the new drug, biologic or device application, we must comply with these requirements. We also must comply with similar regulatory requirements in foreign countries. These foreign regulations vary somewhat from country to country, but generally establish requirements similar to those of the FDA.

In March 1997, the FDA promulgated regulations related to requirements for computer systems that support electronic records and electronic signatures. These regulations define requirements for system control, security, authentication, validation and retention of electronic records. The FDA issued a guidance document, Part 11 Electronic Records; Electronic Signatures Scope and Applicability (August 2003), which defines the FDA s current thinking on the implementation of the 1997 regulation 21 CFR Part 11, and also noted there would be enforcement discretion of specific requirements.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) established certain requirements relating to the privacy and security of personal health information. HIPAA directly covers how health plans, health care clearinghouses and most health care providers transmit, store, use and disclose individually identifiable health information. Covered uses and disclosures include uses and disclosures for purposes of clinical trials or other activities regulated by the FDA.

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In November 2001, the FDA held a public meeting at which it proposed requiring sponsors of new drugs to submit ECG raw data in digital format and annotated digital ECG waveforms. Annotated waveforms include definition of measurement points that are used to create ECG analysis data. A subsequent meeting held in January 2003, which was supported by a preliminary concept paper issued in November 2002, further discussed the trial design, ECG acquisition, analysis and reporting for digital ECGs. Following a meeting in June 2004, the International Conference on Harmonization (ICH) released to the public in September 2004 the following guidelines at Step 3, S7B: Safety Pharmacology Studies for Assessing the Potential for Delayed Ventricular Repolarization (QT Interval Prolongation) by Human Pharmaceuticals and E14: The Clinical Evaluation of QT/QTc Interval Prolongation and Proarrhythmic Potential for Non-Antiarrhythmic Drugs (ICH E14). The objective of these guidelines is to recommend the design and timing of studies in the clinical development process and provide general recommendations on available non-clinical methodologies to assess the potential risk of QT interval prolongation of a pharmaceutical product. On May 12, 2005, the ICH ratified and recommended for implementation the cardiac safety monitoring guidance provided in ICH E14 (step 4). The guidance was implemented by the FDA in October 2005 and adopted by the European Union in November 2005. As of December 31, 2007, ICH E14 is pending ratification in Japan. The guidance confirms previous guidance reinforcing the need for routine cardiac safety testing as well as Thorough QTc testing for all compounds entering the blood stream commencing early in clinical development to provide maximum guidance for later trials, as well as testing for all compounds in Phase III prior to submission for approval.

We believe that we have designed our products and services to be consistent with the recommendations of the relevant regulatory bodies as referred to above and to comply with applicable regulatory requirements.

Potential Liability and Insurance

We attempt to manage our risk of liability for personal injury or death to study subjects from administration of products under study through contractual indemnification provisions with clients and through insurance maintained by our clients and us. Contractual indemnification generally does not protect us against certain of our own actions, such as negligence. The terms and scope of such indemnification vary from client to client and from trial to trial. Although most of our clients are large, well-capitalized companies, the financial viability of these indemnification provisions cannot be assured. Therefore, we bear the risk that the indemnifying party may not have the financial ability to fulfill its indemnification obligations to us. We maintain errors and omissions liability insurance in the amount of $10 million per claim and professional liability insurance in the amount of $1 million per claim. Our operating results could be materially and adversely affected if we were required to pay damages or incur defense costs in connection with a claim that is beyond the scope of an indemnity provision or beyond the scope or level of insurance coverage maintained by us or the client or where the indemnifying party does not fulfill its indemnification obligations to us.

Intellectual Property

Our services have been enhanced by significant investment in information technology. Our research and development organization is committed to achieving operating efficiencies through technological advances. We have developed certain computer software and technologically derived procedures, as well as created internal operational processes, which we seek to protect through a combination of contract law and trade secrets, including seeking patent protection in several jurisdictions. We believe that our technological capabilities and operational processes provide significant benefits to our clients.

On March 16, 2004, we were issued United States Patent No. 6,708,057 (the 057 Patent) for various methods and systems for processing electrocardiograms. The methods and systems have particular utility in the collection and interpretation of electrocardiograms developed during clinical trials. The 057 Patent includes more than 50 claims directed to various features of our EXPeRT® workflow enabled data handling technology.

We have also filed patent applications in Canada, India and the European Patent Office. We also have filed various continuation applications pursuing alternative claim coverage as well as claims directed to various enhancements made to the EXPeRT® technology. We continue to pursue patent protection of new technology advances and production.

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Employees

At December 31, 2007, we had a total of 356 employees excluding the CCSS employees who hold the positions we intend to eliminate, with 280 employees (265 full-time, 15 part-time) at our locations in the United States and 76 employees (74 full-time, 2 part-time) at our location in the United Kingdom. We had 215 employees performing services directly for our clients, 41 employees in research and development, 48 employees in sales and marketing and 52 employees in general and administrative functions.

On February 21, 2007, we announced efficiency improvements in our Cardiac Safety operations and general and administrative cost structure. As a result of these changes, we reduced our headcount by approximately 25 employees.

We are integrating the operations of CCSS with our operations and we plan to close CCSS operations currently conducted in Reno, Nevada and affiliated operations in Crawley, West Sussex, United Kingdom. As a result of these closures, we plan to eliminate certain full-time, part-time and contract personnel at those facilities. We have not determined the precise timing of these position eliminations, but they will occur during 2008. At December 31, 2007, there were 108 CCSS-affiliated employees. We anticipate hiring 40-50 employees in our facilities for the additional workload from CCSS.

We are not a party to any collective bargaining agreements covering any of our employees, nor have we ever experienced any material labor disruption. We are not aware of any current efforts or plans to unionize our employees. We consider our relationship with our employees to be good.

Available Information

Our website address is www.ert.com. We make available on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. You may access and print these forms free of charge from our website.

ITEM 1A. RISK FACTORS

The risk factors identified in the cautionary statements below could cause our actual results to differ materially from those suggested in the forward-looking statements appearing elsewhere in this Form 10-K. However, these risk factors are not exhaustive, as new risks emerge from time to time, and it is not possible for management to predict all such risk factors or to assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results.

Our future operating results are uncertain and may fluctuate. If we fail to meet the expectations of securities analysts and investors, our stock price would likely decline.

If our operating results in any future period fluctuate significantly, we may not meet the expectations of securities analysts and investors, which would likely cause the market price of our common stock to decline. It is difficult to predict the timing or amount of our revenues because:

- we generate a significant percentage of our revenues from a limited number of clients;

our sales cycles can be lengthy and variable;

Thorough QTc studies are typically of large volume and of short duration; and

sponsors and CROs may unexpectedly cancel, postpone or reduce the size of clinical trials.

We make decisions on operating expenses based on anticipated revenue trends and available resources. We also incur expenses educating and providing information to our client base, via consultations, without any obligation by our client to purchase our products and services. Because many of our expenses are fixed and we are committed to making a significant investment in our organization and in marketing our products and services, delays in recognizing revenues could cause our operating results to fluctuate from period to period. If we

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fail to generate the contract signings that we expect or the anticipated revenues from such signings, we may fail to meet financial guidance that we have provided, or may provide in the future, to the public. Failure to meet financial guidance could cause the market price of our common stock to decline and affect our ability to raise capital which could reduce our cash reserves and limit our capital spending.

We depend entirely on the clinical trial market and a downturn in this market could cause our revenues and profitability to decrease.

Our business depends entirely on the clinical trials that pharmaceutical, biotechnology and medical device companies conduct. Our revenues and profitability will decline if there is less competition in the pharmaceutical, biotechnology or medical device industries, which could result in fewer products under development and decreased pressure to accelerate a product approval. Our revenues and profitability will also decline if the FDA or similar agencies in foreign countries modify their requirements, thereby decreasing the need for our services. Any other developments that adversely affect the pharmaceutical, biotechnology or medical device industries generally, including product liability claims, new technologies or products or general business conditions, could also decrease the volume of our business. From time to time studies for which we contracted to provide Cardiac Safety services are delayed or postponed resulting in lower than expected revenues.

Extensive governmental regulation of the clinical trial process could require costly modifications to our products, adversely affect prospective clients willingness to use our products and services and increase competition and reduce our market share.

We may incur increased expenses or suffer a reduction in revenues if our products and services do not comply with applicable government regulations or if regulations allow more competition in the marketplace. Conforming our products and services to these guidelines or to future changes in regulation could substantially increase our expenses. In the United States and in foreign countries, regulatory authorities have also established other standards for conducting clinical trials leading to the approval of new products with which we must comply. We are subject to these regulations because our products and services assist sponsors and CROs in conducting trials and preparing new drug or device applications. If a regulatory authority concludes that trials were not conducted in accordance with established requirements, it may take a variety of enforcement actions depending upon the nature of the violation and the applicable country. In the United States, these measures may range from issuing a warning letter or seeking injunctive relief or civil penalties to recommending criminal prosecution, which could result in a prohibition of our continued participation in future clinical trials.

Our clients and prospective clients will be less likely to use our products and services if the products and services do not comply with regulatory requirements in all countries where clinical trials are expected to take place or if we are precluded from participating in clinical trials in countries where trials will be conducted. In addition, changing regulatory requirements could provide an advantage to our competitors if our competitors are able to meet the requirements more rapidly or at lower cost. For example, in the May 12, 2005 ICH release, it was suggested that semi-automated processing of electrocardiograms may be found acceptable in certain instances. Semi-automated processing uses software algorithm-placed measurements that are later adjudicated by a cardiac specialist or physician. In addition, fully-automated processing of electrocardiograms has been used in certain studies. Fully-automated processing uses only software algorithm-placed measurements. Our manual processing includes manually derived measurements, using our on screen, high resolution caliper placement system, which are later interpreted by a cardiologist. Drug sponsors have shifted towards semi-automated processing and, in some cases, to fully-automated processing, allowing more competitors to compete with us in offering this service and, as a result, we have been forced to reduce pricing to maintain our market share. The effect of such actions has reduced our revenue and gross profit per transaction. In addition, the shift from manual processing adversely affected our results of operations in 2006 and 2007 and may continue to adversely affect our results of operations in the future. If drug

sponsors shift towards fully-automated processing, our future results of operations may be adversely affected. Our failure to maintain revenue and gross profit per transaction may affect our ability to achieve growth in cardiac safety revenues and overall profitability from year to year. Our failure to show growth may also prevent us from meeting the expectations of securities analysts and investors, which would likely cause the market price of our common stock to decline.

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The FDA may recommend a different approach to measure drug effects on the QT interval of an ECG which could make our systems and processes obsolete and adversely affect revenue and profitability.

The FDA has provided guidance reinforcing the need for routine cardiac safety testing as well as Thorough QTc testing for all compounds entering the blood stream. This testing is accomplished by measuring the QT/QTc interval prolongation on an ECG. We function as an ECG core lab and have developed our EXPeRT® system and processes to receive the ECGs and obtain and report these measurements. It is possible that, in the future, the FDA may recommend different approaches to measuring drug effects on the QT interval which may diminish the need for an ECG core lab. This would considerably reduce the value of our existing systems and processes and would substantially decrease our revenues and profitability.

We have several large clients from whom we derive substantial revenue and therefore the loss of even a few of our clients could significantly reduce our revenues and profitability.

We have one client that represented approximately 24% of our total revenues for 2007, an increase from 16% of our total revenues for 2006. While no other client represented more than 10% of our 2007 revenues, our next five largest clients in the aggregate represented approximately 24% of our total revenues for 2007. If we lose all or a material amount of our revenues from any significant clients and do not replace them with revenues from new clients, our revenues will decrease and they may not be sufficient to cover our costs. We currently derive and expect to continue to derive a significant portion of our revenues and profitability from a limited number of clients.

Consolidation among our clients could cause us to lose clients, decrease the market for our products and result in a reduction of our revenues and profitability.

Our client base could decline because of consolidation, and we may not be able to expand sales of our products and services to new clients. Consolidation in the pharmaceutical, biotechnology and medical device industries and among CROs has accelerated in recent years, and we expect this trend to continue. In addition, our profitability will suffer if we reduce our prices in response to competitive pressures without achieving corresponding reductions in our expenses.

New companies or organizations that result from such consolidation may decide that our products and services are no longer needed because of their own internal processes or the use of alternative systems. As these industries consolidate, competition to provide products and services to industry participants will become more intense and the importance of establishing relationships with large industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our products and services. Also, if consolidation of larger clients occurs, the combined organization may represent a larger percentage of business for us and, as a result, we are likely to rely more significantly on the combined organization s revenues to achieve expected future growth.

Our failure to continue to expand our business or manage growth successfully could disrupt our business operations, increase our costs and delay implementation of our business strategies.

Difficulties in managing our expected future growth could disrupt our business operations, increase our costs and delay achievement of our business goals, making it more difficult for us to maintain profitability. Our growth strategy depends on our ability to expand and improve our field sales, marketing and services organization and our operations organization, both in the United States and throughout the world. In order to grow, we will need to hire additional personnel. There are a limited number of experienced personnel with an adequate knowledge of our industry, and competition for their services is intense. In addition, we may not be able to project the rate or timing of increases, if any, in the use of our products and services accurately or to expand and upgrade our systems and infrastructure to

accommodate the increases. The expansion of our foreign operations also will require us to assimilate differences in foreign business practices, overcome language barriers and hire and retain qualified personnel abroad.

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We may not be successful in competing against others providing similar products and services, which could reduce our revenues, profitability and market share.

If our products and services do not achieve widespread acceptance by our clients, our revenues, profitability and market share will likely decline. Our competitors include other centralized cardiac safety laboratories, CROs, software vendors, and clinical trial data service companies. Our targeted clients may decide to choose other technology-based products and services generated internally by them or from another source. Many of our competitors have substantially greater financial and other resources, greater name recognition and more extensive client bases than we do. In addition, many competitors focus their efforts on providing software or services for discrete aspects of the clinical trial process and may compare favorably to us on those discrete aspects. Further, certain drug development organizations may decide not to outsource all or a significant portion of the cardiac safety activities associated with their clinical research programs, which could reduce our revenues, profitability and market share.

Our failure to establish and maintain partnerships and other strategic alliances may delay the development of our products and services, cause us to lose clients and prevent us from growing our business, any of which could also cause our stock price to decline.

We have relationships with providers of clinical pharmacology services, hardware and software systems, telecommunications, web-hosting and development services, systems integration and website content that support our sales and marketing efforts by satisfying other needs of our existing clients that our solutions do not address and by providing us access to their clients as potential sources of new business. We do not generally have long-term contracts with our strategic partners, so they may cease doing business with us on relatively short notice.

We may incur liability as a result of providing consulting and Cardiac Safety analysis and interpretation services.

We provide consulting and centralized analysis and interpretation of ECGs in connection with our clients clinical trials. It is possible that liability may be asserted against us and the physicians who interpret the ECGs for us for failing to accurately diagnose a medical problem indicated by the ECG or for failing to disclose a medical problem to the investigator responsible for the subject being tested. If we are found liable, we may be forced to pay fines and damages and to discontinue a portion of our operations. The contractual protections included in our client contracts and our insurance coverage may not be sufficient to protect us against such liability. If the protections are not adequate, our profitability would be negatively impacted and also our stock price would likely fall.

The cardiac safety equipment that we own and lease could become obsolete due to technological advances or we may not be able to provide the quantity of equipment needed to service our clients.

We own and lease equipment, which we provide to our clients to perform cardiac safety procedures. This equipment may become obsolete due to advances in technology and the introduction of newer equipment models prior to the time that we have fully depreciated the asset or fulfilled our lease obligations. This could result in us recording additional expense to write-off the book value or the remaining lease value of the equipment. We are also dependent on a limited number of suppliers to provide the equipment necessary to service our clients. We may lose clinical clients if adequate equipment is not available, resulting in reduced revenues and profitability.

Capacity constraint or system failures could result in the loss of or liability to clients, which could reduce our revenues, increase our expenses and reduce profitability.

In the past, we have been able to staff for increasing workload demands in an expeditious manner. However, there may not be a sufficient and suitable group of potential employees available if rapid growth occurs in a short period of time. If we are unable to hire suitable employees to adequately meet market demand for our services, it could affect

our ability to bid on this business or to meet existing contractual turnaround times.

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If our clients experience any significant level of problems with our technology, we may become liable to those clients, we may be unable to persuade our clients to change from a manual, paper-based process and we may lose clients. The success of our products and services depends on the ability to protect against:

- software or hardware malfunctions that interrupt operation of our applications or cause loss of data integrity;
- power loss or telecommunications failures;
- overloaded systems;
- human error; and
- natural disasters.

In addition, when we offer our software products as an application service provider, our network infrastructure may be vulnerable to computer viruses, break-ins and similar disruptive problems caused by our clients or other Internet users. This could also lead to delays, loss of data, interruptions or cessation of service to our clients for which we may be liable. There is no current technology that provides absolute protection against these events. In addition, we may find that the cost to develop or incorporate technology into our products that provides the maximum protection against these problems outweighs the incremental benefits of providing such enhanced protection.

Our software products are complex and may contain undetected software errors, which could lead to an increase in our costs or a reduction in our revenues and profitability.

The occurrence of hardware and software errors, whether caused by our solutions or another vendor s products, could:

- cause sales of our solutions to decrease and our revenues and profitability to decline;
- cause us to incur significant warranty and repair costs;
- divert the attention of our technical personnel away from product development efforts; and
- cause significant client relations problems.

Complex software products such as those included in our technology solutions frequently contain undetected errors when first introduced or as new versions are released. In addition, we combine our solutions with software and hardware products from other vendors. As a result, we may experience difficulty in identifying the source of an error.

Rapidly changing technology may impair our ability to develop and market our solutions and cause us to become less competitive.

The marketplace for our software products is increasingly driven by demands for ease of use and effective performance for end-users of the system. We depend on continued focus on product improvements in this area in order to remain competitive.

Our failure to continuously offer competitive products and services could cause us to lose clients and prevent us from successfully marketing our solutions to prospective clients. As a result, our revenues and profitability would likely decline. Because our business relies on technology, we are susceptible to:

rapid technological change;

changing client needs;

frequent new product introductions; and

evolving industry standards.

As the Internet, computer and software industries continue to experience rapid technological change, we must quickly modify our solutions to adapt to such changes. We must develop and introduce new or enhanced products

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and services that continually meet changing market demands and that keep pace with evolving industry standards. We have experienced development delays in the past and may experience similar or more significant delays in the future. In addition, competitors may develop products superior to our solutions, which could make our products obsolete.

If clinical trial sponsors and CROs do not shift from their existing paper-based methods of collecting and managing clinical trial data at investigator sites to an electronic system with centralization, we may not achieve the market penetration necessary to grow the business at expected levels.

If participants conducting clinical trials are unwilling to adopt our technology solutions and new ways of conducting business, our revenues may not be sufficient to achieve our expected growth rate. Our efforts to establish a standardized, electronic process to collect, manage and analyze clinical trial and cardiac safety data are a significant departure from the traditional clinical research process. We estimate that the majority of clinical trials today use manual, paper-based data entry, management and analysis tools. Each clinical trial can involve a multitude of participants, including the sponsor, a CRO, regional site managers, investigators and patients. With so many participants involved in a clinical trial, it may be difficult to convince a sponsor or CRO to accept new methods of conducting a clinical trial. We may not be successful in persuading these participants to change the manner in which they have traditionally operated and to use our products and services.

If general economic conditions worsen, potential clients may be unwilling to make large capital software purchases or commitments, which could affect our ability to maintain and/or increase license revenues and overall profitability.

We have seen some resistance by potential clients in making the necessary large capital expenditure to license our software through our traditional perpetual license offering. Despite our efforts to market an annual or otherwise recurring term license, our failure to continue selling perpetual software licenses in the near term may affect our ability to achieve growth in license revenues and overall profitability from year to year. If we fail to show growth in license revenues and overall profitability, we may not meet the expectations of securities analysts and investors, which would likely cause the market price of our common stock to decline. In addition, if we are not successful in selling recurring term licenses, we will not generate the volume of recurring revenues in the future that we are expecting.

We depend on certain key executives. If we lose the services of any of these executives, our operations could be disrupted, we could incur additional expenses and our ability to expand our operations could be impeded, particularly if we are not able to recruit a suitable replacement in a timely manner.

The loss of the services of one or more of our key executives could negatively affect our ability to achieve our business goals. Our future performance will depend significantly on the continued service and performance of all of our executives, particularly Dr. Joel Morganroth, our Chairman of the Board of Directors and Chief Scientific Officer, and Dr. Michael McKelvey, our President and Chief Executive Officer. We also depend on our key technical, client support, sales and other managerial employees. We believe that it would be costly and time consuming to find suitable replacements for our key employees.

If we are unable to protect our proprietary technology or maintain our technological advantages, we may lose our intellectual property rights and become less competitive.

If we fail to protect our intellectual property from infringement, other companies may use our intellectual property to offer competitive products at lower prices. If we fail to compete effectively against these companies, we could lose clients and experience a decline in sales of our solutions. To protect our intellectual property rights, we rely on a combination of copyright and trade secret laws and restrictions on disclosure. In addition, in 2004 we were issued a U.S. Patent on over 50 claims directed to various features of our EXPeRT® workflow enabled data handling technology. We also have filed continuation-in-part applications in the United States Patent and Trademark Office

pursuing alternative claim coverage and pursuing claim coverage specific to enhancements in our EXPeRT® workflow enabled handling technology that is imbedded in EXPeRT® 2. Despite our efforts to protect our proprietary rights, unauthorized parties may copy or otherwise obtain and use our products and technology. In

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addition, our U.S. Patent could be successfully challenged as invalid. Monitoring unauthorized use of our solutions is difficult and the steps we have taken may not prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

If we are not able to effectively integrate our recent transactions with our historic operations, we will not achieve the improvements in revenues and profitability that we anticipate.

Acquisitions involve numerous risks, including:

inability to achieve anticipated synergies;

unwillingness of the market to use newly-licensed technology;

difficulties in the integration of the operations, technologies, products and personnel of the acquired company;

failure of a party to perform ancillary contractual obligations related to the acquisition;

diversion of management s attention from other business concerns;

potential untimely loss of key employees of the acquired company or of us; and

risk of assuming unforeseen liabilities or becoming subject to litigation.

If we are not able to integrate the operations of CCSS successfully or on a timely basis, or if the market does not embrace the IVR clinical assessments and system we licensed from HTS, we will not be able to achieve the higher revenues and profitability that we had anticipated that these transactions would allow us to generate.

We cannot assure you that CCSS customers will remain as our customers in the future. Additionally, we expect to achieve a certain level of revenue from the marketing agreement with Covance. If we lose any material portion of CCSS customers or if Covance does not perform to our expectations under the marketing agreement, our revenues could be significantly reduced and we could suffer an adverse affect on our business, financial condition and results of operations.

Goodwill is subject to impairment which could result in a significant expense.

As a result of the CCSS acquisition, we carry a significant amount of goodwill. Goodwill is not amortized but is subject to an impairment test at least annually. We perform the impairment test annually as of December 31 or more frequently if events or circumstances indicate that the value of goodwill might be impaired. If we determine that the carrying value of goodwill may not be recoverable, we will base the measurement of any impairment on a projected discounted cash flow method using a discount rate commensurate with the risk inherent in our current business model. An impairment could result in a write-off of goodwill which would reduce our profitability in the period of the write-off.

Third parties may claim that we infringe upon their intellectual property rights, which could result in the loss of our rights, subject us to liability and divert management attention.

Although we are not currently involved in any intellectual property litigation, we may be a party to litigation in the future either to protect our intellectual property or as a result of an alleged infringement by us of the intellectual property of others. These claims and any resulting litigation could subject us to significant liability or invalidate our

ownership rights in the technology used in our solutions. As a result, we may have to stop selling our solutions. Litigation, regardless of the merits of the claim or outcome, could consume a great deal of our time and money and would divert management time and attention away from our core business.

Any potential intellectual property litigation also could force us to do one or more of the following:

- stop using the challenged intellectual property or selling our products or services that incorporate it;
- obtain a license to use the challenged intellectual property or to sell products or services that incorporate it, which could be costly or unavailable; and

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redesign those products or services that are based on or incorporate the challenged intellectual property, which could be costly and time consuming or could adversely affect the functionality and market acceptance of our products.

If we must take any of the foregoing actions, we may be unable to sell our solutions, which would substantially reduce our revenues and profitability.

Third parties have made claims for damages against the Company and may continue to do so, which could result in an unfavorable settlement or judgment against us.

Litigation, regardless of the merits of the claim or outcome, consumes a great deal of our time and money and often diverts management time and attention away from our core business. In addition, litigation against us could result in economic harm which could reduce our cash reserves and cause the market price of our common stock to decline.

Our international operations expose us to additional risks.

A key element of our business strategy is to expand our international operations. We face a number of risks and expenses that are inherent in operating in foreign countries and, accordingly, our international operations may not achieve profitability consistently each year. The risks to us from our international operations include:

government regulations;

trade restrictions;

burdensome foreign taxes;

exchange rate controls and currency exchange rate fluctuations;

political and economic instability;

varying technology standards; and

difficulties in staffing and managing foreign operations.

We are subject to a variety of government regulations in the countries where we market our products and services. We currently operate in the United Kingdom through a foreign subsidiary and may operate in the future in other countries through additional foreign subsidiaries. If we form foreign subsidiaries outside of the United Kingdom, we may need to withhold taxes on earnings or other payments they distribute to us. Generally, we can claim a foreign tax credit against our federal income tax expense for these taxes. However, the United States tax laws have a number of limitations on our ability to claim that credit or to use any foreign tax losses, which could result in higher payment by us of taxes in the United States. We may also need to include our share of our foreign subsidiaries earnings in our income even if the subsidiaries do not distribute money to us. As a result, less cash would be available to us in the United States.

Our global operations may involve transactions in a variety of currencies. Fluctuations in currency exchange rates could reduce our reported revenues or increase our reported expenses. We currently do not utilize hedging instruments.

The agreements that we sign with clients outside the United States may be governed by the laws of the countries where we provide our products and services. We may also need to resolve any disputes under these agreements in the courts or other dispute resolution forums in those countries. This could be expensive or could distract management s attention away from our core business.

In the event we are unable to satisfy regulatory requirements relating to internal control over financial reporting, or if these internal controls are not effective, our business and financial results may suffer.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our brand and operating results could be harmed. Pursuant to the Sarbanes-Oxley Act of 2002, we are required to furnish a report by management on internal control over financial reporting,

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including management s assessment of the effectiveness of such control. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could also be a material adverse effect on our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located at 30 South 17th Street, Philadelphia, Pennsylvania, where we lease approximately 39,000 square feet. Our lease expires in August 2008. Upon expiration of this lease, we expect to be able to obtain an adequate facility due to the availability of commercial space in the area. We also lease approximately 31,000 square feet of office space in Bridgewater, New Jersey, which expires in January 2011 and we lease approximately 18,000 square feet of office space in Peterborough, United Kingdom, which expires in June 2013. We also lease approximately 51,000 square feet in Reno, Nevada, which expires in November 2013. We plan to vacate the Reno location within approximately one year and seek a lessee or sublessee for the property, and both we and Covance are obligated to use our commercially reasonable efforts to locate an appropriate tenant. We are responsible for all payment obligations on the Reno lease until November 28, 2008. From November 28, 2008 through November 28, 2012, we will split the payment obligations on the Reno lease with Covance, to the extent such obligations are not covered by a new tenant.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

SPECIAL ITEM. EXECUTIVE OFFICERS OF REGISTRANT

Officers are elected by the Board of Directors and serve at the pleasure of the Board. Our executive officers are as follows:

Name	Age	Position
Michael J. McKelvey, Ph.D.	55	President, Chief Executive Officer and Director
Joel Morganroth, MD	62	Chairman of the Board of Directors and Chief Scientific Officer
Richard A. Baron	52	Executive Vice President, Chief Financial Officer and Secretary
Thomas P. Devine	55	Executive Vice President and Chief Development Officer

Amy Furlong	35	Executive Vice President, Cardiac Safety
Jeffrey S. Litwin, MD	50	Executive Vice President and Chief Medical Officer
John M. Blakeley	40	Executive Vice President, Global Sales and Marketing
Robert S. Brown	52	Senior Vice President, Strategic Marketing, Planning & Partnerships
David Laky	43	Senior Vice President, eClinical
Gregory Sadowski	35	Senior Vice President, ePRO
George Tiger	48	Senior Vice President, Americas Sales

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Dr. McKelvey has served as our President and Chief Executive Officer since June 2006 and has served on our Board of Directors since July 2006. Prior to joining us, Dr. McKelvey was employed for five years by PAREXEL International, one of the largest biopharmaceutical outsourcing organizations in the world, where he served as Corporate Senior Vice President, Clinical Research Services.

Dr. Morganroth has served as the Chairman of our Board of Directors since 1999 and a member of our Board of Directors since 1997. He has served as our Chief Scientific Officer since April 2006. Prior to that, he served as our Chief Scientist from March 2001 to December 2005 and our Chief Executive Officer from 1993 to March 2001. In addition, Dr. Morganroth has consulted for us since 1977. Dr. Morganroth is a globally recognized cardiologist and clinical researcher. Dr. Morganroth served for over ten years as a Medical Review Officer/Expert for the U.S. Food and Drug Administration.

Mr. Baron has been our Executive Vice President and Chief Financial Officer since May 2006 and our Secretary since March 2007. Prior to joining us, Mr. Baron served as Vice President Finance and Chief Financial Officer for Animas Corporation, a manufacturer and distributor of insulin infusion pumps, since 2000. Mr. Baron is a certified public accountant.

Mr. Devine has been our Executive Vice President and Chief Development Officer since December 2005. Previously, he served as our Senior Vice President and Chief Development Officer from April 2003 until December 2005. From August 2002 to April 2003, Mr. Devine was our Vice President of Research and Development. Prior to joining us, Mr. Devine was Chief Technology Officer for ecHUB, Inc., an electronic commerce company, from January 2000 to July 2002.

Ms. Furlong has been our Executive Vice President, Cardiac Safety since December 2005. She served as our Senior Vice President, Regulatory Compliance from January 2004 until December 2005. From February 2001 to January 2004, Ms. Furlong served as our Vice President, Regulatory Compliance.

Dr. Litwin is a cardiologist and has been our Executive Vice President and Chief Medical Officer since December 2005. He served as our Senior Vice President and Chief Medical Officer from July 2000 until December 2005.

Mr. Blakeley has been our Executive Vice President, Global Sales and Marketing since February 2008. He served as our Senior Vice President, International Operations and Sales from September 2006 to February 2008. He served as our Group Vice President, International Business Development from January 2005 to August 2006 and as our Director of Business Development from May 2002 to December 2004. Prior to joining eRT, Mr. Blakeley was Managing Director of MediServe Medical UK Limited, a medical devices specialist.

Mr. Brown has been our Senior Vice President, Strategic Marketing, Planning & Partnerships since September 2006. He served as our Senior Vice President, Outsourcing Partnerships from July 2002 to August 2006. From January 2000 to June 2002, Mr. Brown was our Senior Vice President, Cardiac Safety.

Mr. Laky has been our Senior Vice President, eClinical since February 2008. He served as our Vice President, Professional Services from October 1999 until February 2008.

Mr. Sadowski has been our Senior Vice President, ePRO since February 2008. He is also the director of our Information Technology and Customer Care groups. He served as our Vice President and General Manager, ePRO since the group s inception in June 2007. He previously served as our Vice President, Information Technology, Customer Care and Logistics from December 2005 to May 2007 and our Vice President, Information Technology and Customer Care from April 2002 to November 2005.

Mr. Tiger has been our Senior Vice President, Americas Sales since October 2006. He served as our Senior Vice President, International Sales and Operations from October 2005 to September 2006, Senior Vice President, International Operations from July 2004 to October 2005, Vice President, International Business Development from August 2002 to July 2004 and as Director of Business Development from January 2001 to August 2002.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Select Market under the symbol ERES. Below is the range of high and low sales prices for the common stock for the following quarters as quoted on the Nasdaq Global Select Market or its predecessor, the Nasdaq National Market.

Calendar Period	High	Low
2006		
First Quarter	$ 18.54	$ 13.59
Second Quarter	14.99	8.11
Third Quarter	9.46	6.83
Fourth Quarter	8.67	5.88
2007		
First Quarter	$ 8.21	$ 6.12
Second Quarter	9.72	7.66
Third Quarter	12.00	9.36
Fourth Quarter	12.34	8.53

We have never declared or paid any cash dividend on our common stock. We do not anticipate paying any cash dividends in the foreseeable future because we intend to retain our current cash and future earnings for the development and expansion of our business and for the repurchase of common stock under our stock buy-back program.

As of February 26, 2008, there were 53 record holders of our common stock.

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Stockholder Return Performance Graph

The following graph compares the cumulative total stockholder return on our common stock against the cumulative total return on the Nasdaq Composite Index and the Nasdaq Health Services Index for the period commencing December 31, 2002 and ending December 31, 2007. The graph assumes that at the beginning of the period indicated, $100 was invested in our common stock and the stock of the companies comprising the Nasdaq Composite Index and the Nasdaq Health Services Index, and that all dividends, if any, were reinvested.

This stockholder return performance graph shall not be deemed filed with the Securities and Exchange Commission (SEC) as part of this Form 10-K or incorporated by reference into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate the performance graph by reference therein.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is qualified by reference to, and should be read in conjunction with, the consolidated financial statements, including the notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. We have included CCSS s operating results in our Consolidated Statements of Operations from the date of the acquisition, November 28, 2007.

Consolidated Statements of Operations Data (in thousands, except per share data)

	Year Ended December 31,				
	2003	2004	2005	2006	2007
Net revenues:					
Licenses	$ 5,738	$ 9,803	$ 6,063	$ 3,017	$ 2,700
Services	46,791	76,340	59,712	55,309	69,547
Site support	14,313	23,250	21,072	28,042	26,451
Total net revenues	66,842	109,393	86,847	86,368	98,698
Costs of revenues:					
Cost of licenses	658	664	436	286	304
Cost of services	17,473	24,124	24,337	25,431	30,522
Cost of site support	6,610	11,486	13,965	18,821	17,808
Total costs of revenues	24,741	36,274	38,738	44,538	48,634
Gross margin	42,101	73,119	48,109	41,830	50,064
Operating expenses:					
Selling and marketing	7,763	9,391	9,122	11,051	11,222
General and administrative	6,804	10,276	11,458	14,668	12,258
Research and development	4,564	4,090	4,093	4,146	4,333
Total operating expenses	19,131	23,757	24,673	29,865	27,813
Operating income	22,970	49,362	23,436	11,965	22,251
Other income, net	310	863	936	1,250	2,206
Income before income taxes	23,280	50,225	24,372	13,215	24,457
Income tax provision	8,817	20,501	9,007	4,905	9,205
Net income	$ 14,463	$ 29,724	$ 15,365	$ 8,310	$ 15,252
Basic net income per share	$ 0.29	$ 0.58	$ 0.31	$ 0.17	$ 0.30
Diluted net income per share	$ 0.27	$ 0.54	$ 0.29	$ 0.16	$ 0.29

Consolidated Balance Sheet Data (in thousands)

	December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
Cash, cash equivalents and short-term investments	$ 51,922	$ 64,964	$ 52,001	$ 56,913	$ 46,879
Working capital	45,777	53,492	45,795	61,320	45,366
Total assets	91,978	116,895	104,766	115,064	147,696
Treasury stock	(3,390)	(31,555)	(56,387)	(62,190)	(62,190)
Total stockholders equity	69,259	86,854	79,973	93,622	113,512

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement for Forward-Looking Information

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes to the consolidated financial statements appearing elsewhere in this Form 10-K. The following discussion includes a number of forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995 that reflect our current views with respect to future events and financial performance. We use words such as anticipate, believe, expect, intend and similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to risks and uncertainties such as competitive factors, integration of acquisitions, technology development, market demand and our ability to obtain new contracts and accurately estimate net revenues due to uncertain regulatory guidance, variability in size, scope and duration of projects, and internal issues of the sponsoring client. Such risks and uncertainties could cause actual results to differ materially from historical results or future predictions. Further information on potential factors that could affect our financial results can be found in Item 1A Risk Factors in this Form 10-K.

Overview

We were founded in 1977 to provide Cardiac Safety services to evaluate the safety of new drugs. We provide technology and services that enable the pharmaceutical, biotechnology and medical device industries to collect, interpret and distribute cardiac safety and clinical data more efficiently. We are a market leader in providing centralized electrocardiographic services (Cardiac Safety services or EXPeRT® ECG services) and a leading provider of technology and services that streamline the clinical trials process by enabling our clients to evolve from traditional, paper-based methods to electronic processing using our EXPeRT® eClinical and EXPeRT® ePRO products and services.

Our solutions improve the accuracy, timeliness and efficiency of trial set-up, data collection from sites worldwide, data interpretation, and new drug, biologic and device application submissions. We offer Cardiac Safety services, which are utilized by pharmaceutical companies, biotechnology companies, medical device companies, clinical trial sponsors and clinical research organizations (CROs) during the conduct of clinical trials. The Cardiac Safety services are performed during all phases of a clinical trial cycle and include the collection, interpretation and distribution of electrocardiographic (ECG) data and images. The ECG provides an electronic map of the heart s rhythm and structure, and typically is performed in most clinical trials. Cardiac Safety services permits assessments of the safety of therapies by documenting the occurrence of cardiac electrical change. Thorough QTc studies are comprehensive studies that typically are of large volume and of short duration, with ECGs performed over a two- to six-month period. We also offer site support, which includes the rental and sale of cardiac safety equipment along with related supplies and freight. Additionally, we offer the licensing and, at the client s option, hosting of our proprietary EXPeRT® eClinical software products and the provision of maintenance and consulting services in support of our proprietary EXPeRT® eClinical software products. We offer electronic patient reported outcomes (ePRO) services along with 57 proprietary clinical assessments.

Our license revenues consist of license fees for perpetual license sales and monthly and annual term license sales. Our services revenues consist of Cardiac Safety services and consulting, technology consulting and training services and software maintenance services. Our site support revenue consists of cardiac safety equipment rentals and sales along with related supplies and freight.

We enter into contracts to sell our products and services and, while the majority of our sales agreements contain standard terms and conditions, there are agreements that contain multiple elements or non-standard terms and conditions. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes and, if so, how the contract value should be allocated among the deliverable elements and when to recognize revenue for each element. We recognize revenue for delivered elements only when the fair values of undelivered elements are known, uncertainties regarding client

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acceptance are resolved and there are no client-negotiated refund or return rights affecting the revenue recognized for delivered elements.

Cost of licenses consists primarily of application service provider (ASP) fees for those clients that choose hosting, the cost of producing compact disks and related documentation and royalties paid to third parties in connection with their contributions to our product development. Cost of services includes the cost of Cardiac Safety services and the cost of technology consulting, training and maintenance services. Cost of Cardiac Safety services consists primarily of direct costs related to our centralized Cardiac Safety services and includes wages, depreciation, amortization, fees paid to outside consultants and other direct operating costs. Cost of technology consulting, training and maintenance services consists primarily of wages, fees paid to consultants and other direct operating costs related to our consulting and client support functions. Cost of site support consists primarily of wages, cardiac safety equipment rent and depreciation, related supplies, cost of equipment sold, shipping expenses and other direct operating costs. Selling and marketing expenses consist primarily of wages and commissions paid to sales personnel, travel expenses and advertising and promotional expenditures. General and administrative expenses consist primarily of wages and direct costs for our finance, administrative, corporate information technology, legal and executive management functions, in addition to professional service fees and corporate insurance. Research and development expenses consist primarily of wages paid to our product development staff, costs paid to outside consultants and direct costs associated with the development of our technology products.

We conduct our operations through offices in the United States (U.S.) and the United Kingdom (UK). Our international net revenues represented approximately 20%, 21% and 23% of total net revenues for the years ended December 31, 2005, 2006 and 2007, respectively. The majority of our revenues are allocated among our geographic segments based upon the profit split transfer pricing methodology, and revenues are generally allocated to the geographic segment where the work is performed. The international net revenues as a percentage of total net revenues reflect the application of the change in transfer pricing methodology, which we implemented in the third quarter of 2005, as if the changes were in effect as of January 1, 2005.

Results of Operations

Executive Overview

2007 was a year of stabilization and return to growth for eRT. We witnessed increased cost pressures on pharmaceutical and biotechnology companies as well as an increasingly competitive environment. We responded to these challenges by several proactive enhancements to our organization that will serve as a solid foundation for future growth. At the beginning of the year we released a new version of our key workflow management system EXPeRT® which significantly enhanced our productivity and ability to deliver high quality work. We also enhanced our business by undertaking an efficiency program in February to rationalize some elements of our cost structure, specifically in the core cardiac safety operations and in selling, general and administrative areas.

After approximately two years of adapting to the ICH E14 guidance from governmental regulators, the industry began to incorporate the regulatory guidance into its drug development and budgetary processes resulting in an increased use of ECGs in some routine trials and the conducting of Thorough ECG trials for most new drugs. We had an excellent year in cardiac safety operations. We set records for the number of ECG transactions processed, the amount of new sales bookings recorded and quarterly revenue levels, achieved in the fourth quarter.

We completed two transactions during the year. On November 28, 2007, we acquired Covance Cardiac Safety Services, Inc. (CCSS), the Covance Inc ECG core lab, for $35.2 million plus additional cash payments of up to approximately $14 million, based upon the potential realization of revenue from the backlog transferred and from new contracts secured through Covance s marketing activities. During 2007, Covance earned $3.0 million of this contingent

amount, which we paid in January 2008. The final proceeds to Covance are further subject to certain post-closing working capital adjustments. The acquisition included a marketing agreement under which Covance is obligated to use us as its provider of centralized cardiac safety services, and to offer these services to Covance s clients, on an exclusive basis, for a 10-year period, subject to certain exceptions. The agreement does not restrict our continuing collaboration with our other key CRO, Phase I units, Academic Research Centers and other strategic partners. We plan to fully integrate the operations of CCSS into our existing operations. We will do so by merging

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CCSS s Reno, Nevada based operations into our existing operations in Philadelphia, Pennsylvania or Peterborough, United Kingdom. In so doing, we will close the operations in Reno in late 2008.

In June 2007, we licensed the key assets of Healthcare Technology Systems (HTS), including its interactive voice response system and 57 clinical assessments, some of which are proprietary. This agreement launched our ePRO (electronic patient reported outcomes) line of business that we believe, over time, will turn into an attractive source of revenue growth for the company. As of December 31, 2007, we paid HTS $1.5 million for the license and a $0.25 million advanced payment against future royalties. We will pay royalties to HTS based on the level of revenues we receive from the assessments and the IVR system. An additional $0.75 million of royalty payments are guaranteed, and will be made in two equal payments in November 2008 and May 2009. Any royalties earned by HTS will be applied against these payments. After these two payments are made, all future payments we make to HTS will be royalty payments based solely on revenues we receive from EXPeRT® ePRO sales.

In addition to the cardiac safety area, we have invested in our eClinical suite of software, both in technology and sales, as well as in our emerging ePRO line of business. Across all of our product lines, we continued our excellent track record of performance, customer service, quality and on-time/on-budget delivery.

Our net revenues for 2007 were $98.7 million as compared to $86.4 million for 2006, which was the result of growth in our service revenues (which are predominately cardiac safety related). Gross margins for 2007 were $50.1 million as compared to $41.8 million for 2006. The improvement in gross margins was due to the improvement in the operating leverage associated with the services element of our business. Our 2007 net income was $15.3 million or $0.29 per diluted share as compared to $8.3 million or $0.16 per diluted share for 2006.

The following table presents certain financial data as a percentage of total net revenues:

	Year Ended December 31,		
	2005	2006	2007
Net revenues:			
Licenses	7.0%	3.5%	2.7%
Services	68.8	64.0	70.5
Site support	24.2	32.5	26.8
Total net revenues	100.0	100.0	100.0
Costs of revenues:			
Cost of licenses	0.5	0.3	0.3
Cost of services	28.0	29.5	30.9
Cost of site support	16.1	21.8	18.1
Total costs of revenues	44.6	51.6	49.3
Gross margin	55.4	48.4	50.7
Operating expenses:			
Selling and marketing	10.5	12.7	11.4
General and administrative	13.2	17.0	12.4
Research and development	4.7	4.8	4.4

Total operating expenses	28.4	34.5	28.2
Operating income	27.0	13.9	22.5
Other income, net	1.1	1.4	2.3
Income before income taxes	28.1	15.3	24.8
Income tax provision	10.4	5.7	9.3
Net income	17.7%	9.6%	15.5%

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Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

The following table presents statements of operations data with product line detail (dollars in thousands):

	Year Ended December 31,		Increase (Decrease)	
	2006	**2007**		
Licenses:				
Net revenues	$ 3,017	$ 2,700	$ (317)	(10.5%)
Costs of revenues	286	304	18	6.3%
Gross margin	$ 2,731	$ 2,396	$ (335)	(12.3%)
Services:				
Cardiac Safety				
Net revenues	$ 48,139	$ 63,507	$ 15,368	31.9%
Costs of revenues	22,478	27,929	5,451	24.3%
Gross margin	$ 25,661	$ 35,578	$ 9,917	38.6%
Technology consulting and training				
Net revenues	$ 3,184	$ 2,630	$ (554)	(17.4%)
Costs of revenues	1,939	1,753	(186)	(9.6%)
Gross margin	$ 1,245	$ 877	$ (368)	(29.6%)
Software maintenance				
Net revenues	$ 3,986	$ 3,409	$ (577)	(14.5%)
Costs of revenues	1,014	840	(174)	(17.2%)
Gross margin	$ 2,972	$ 2,569	$ (403)	(13.6%)
Total services				
Net revenues	$ 55,309	$ 69,547	$ 14,238	25.7%
Costs of revenues	25,431	30,522	5,091	20.0%
Gross margin	$ 29,878	$ 39,025	$ 9,147	30.6%
Site support:				
Net revenues	$ 28,042	$ 26,451	$ (1,591)	(5.7%)
Costs of revenues	18,821	17,808	(1,013)	(5.4%)
Gross margin	$ 9,221	$ 8,643	$ (578)	(6.3%)
Total				

Net revenues	$ 86,368	$ 98,698	$ 12,330	14.3%
Costs of revenues	44,538	48,634	4,096	9.2%
Gross margin	41,830	50,064	8,234	19.7%
Operating expenses:				
Selling and marketing	11,051	11,222	171	1.5%
General and administrative	14,668	12,258	(2,410)	(16.4%)
Research and development	4,146	4,333	187	4.5%
Total operating expenses	29,865	27,813	(2,052)	(6.9%)
Operating income	11,965	22,251	10,286	86.0%
Other income, net	1,250	2,206	956	76.5%
Income before income taxes	13,215	24,457	11,242	85.1%
Income tax provision	4,905	9,205	4,300	87.7%
Net income	$ 8,310	$ 15,252	$ 6,942	83.5%

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The following table presents costs of revenues as a percentage of related net revenues and operating expenses as a percentage of total net revenues:

	Year Ended December 31,		Increase (Decrease)
	2006	2007	
Cost of licenses	9.5%	11.3%	1.8%
Cost of services:			
Cardiac Safety	46.7%	44.0%	(2.7%)
Technology consulting and training	60.9%	66.7%	5.8%
Software maintenance	25.4%	24.6%	(0.8%)
Total cost of services	46.0%	43.9%	(2.1%)
Cost of site support	67.1%	67.3%	0.2%
Total costs of revenues	51.6%	49.3%	(2.3%)
Operating expenses:			
Selling and marketing	12.7%	11.4%	(1.3%)
General and administrative	17.0%	12.4%	(4.6%)
Research and development	4.8%	4.4%	(0.4%)

License revenues decreased due to the sale of one significant license in 2006 with no comparable sale in 2007.

The increase in Cardiac Safety service revenues was primarily due to additional transactions performed in 2007 as compared to 2006 partially offset by a decrease in average revenues per transaction. The decrease in average revenue per transaction was largely due to the impact of increased activity in semi-automated processing, which generally includes lower fees per transaction than other studies, as well as competitive pricing pressure. This decrease in average revenue per transaction primarily occurred in the first two quarters of 2007. The average revenue per transaction rose slightly in the third and fourth quarters of 2007. Additionally, Cardiac Safety service revenue in the year ended December 31, 2007 included $1.7 million of cardiac safety consulting services revenue, which was a new revenue source to eRT beginning in 2007. There was also a $1.1 million increase in project management fees and a $0.4 million increase in miscellaneous revenue, commensurate with the increase in ECG transaction revenue. The acquisition of CCSS added approximately $1.2 million in revenue in 2007, which effectively offset the impact of the $1.2 million of revenue we recognized in 2006 upon the termination of a Digital ECG Franchise at the end of August 2006 for which there was no corresponding revenue recognized in 2007.

The decrease in technology consulting and training revenues was primarily related to a decrease in consulting revenue from EXPeRT® eClinical clients related to protocol set-up work.

Software maintenance revenues decreased due to the cancellation and non-renewals of maintenance agreements and a reduction in the number of users. These declines were partially offset by maintenance on several software licenses sold during 2006 and 2007. Our current sales focus is on monthly and annual term license sales rather than perpetual license sales, which will lead to the erosion of maintenance revenue over time. Monthly and annual term license sales do not generate maintenance revenue as the license fee includes product upgrades and customer support.

Site support revenues decreased primarily due to a $4.5 million decrease in the sale of cardiac safety equipment for the year ended December 31, 2007 as compared to the year ended December 31, 2006. While average monthly equipment rental revenue per unit has fallen by over 10% from 2006 to 2007, an increase in units rented more than compensated for the revenue impact. Additionally offsetting this decrease was an increase in freight revenues of $1.2 million and

supplies revenue of $0.2 million, both of which were related to the additional units rented. The acquisition of CCSS added approximately $0.3 million in revenue in 2007.

The increase in the cost of Cardiac Safety services was primarily due to a $1.7 million increase in depreciation expense related to our EXPeRT® 2 which was placed into production in January 2007, $1.3 million in consulting costs related to cardiac safety consulting revenue discussed above, $0.8 million increase in bonus expense as certain bonus targets were met in 2007 while there was no bonus in 2006, $0.9 million increase in labor, and $0.2 million

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increase in software license and maintenance. Additionally, there were $1.2 million in costs relating to the CCSS operation in 2007, primarily related to labor costs. Partially offsetting the increase were reductions of $0.1 million each in telecommunications, depreciation expense excluding EXPeRT® 2, stock option compensation expense, pass-through costs and allocated expenses. The decrease in the cost of Cardiac Safety services as a percentage of Cardiac Safety service revenues reflects the fact that some of the costs do not necessarily change in direct relation with changes in revenue.

The decrease in the cost of technology consulting and training revenues was the result of a number of small decreases in expenses such as consultants and travel expenses. The increase in the cost of technology consulting and training revenues as a percentage of technology consulting and training revenues reflects the fact that some of the costs do not necessarily change in direct relation with changes in revenue.

The decrease in the cost of software maintenance revenues, both in absolute terms and as a percentage of software maintenance revenues, was the result of lower labor costs due to reduced headcount.

The decrease in the cost of site support was primarily due to a $2.6 million decrease in the cost of equipment sales commensurate with the decrease in revenue from equipment sales. Partially offsetting this decrease was a $1.1 million increase in freight and $0.2 million increase in supplies due to an increase in the number of units of equipment utilized by our clients. An increase in depreciation expense of $2.4 million was largely offset by a reduction in equipment rental expense. The shift of expense between these categories resulted from our agreement to purchase our leased cardiac safety equipment. The increase in the cost of site support as a percentage of site support revenues reflects the fact that some of the costs do not necessarily change in direct relation with changes in revenue.

The decrease in general and administrative expenses, both in absolute terms and as a percentage of total net revenues, was due primarily to $1.8 million of costs associated with management changes in the second quarter of 2006 and $0.6 million of costs in 2006 associated with the settlement of a contract dispute, for which there were no corresponding expenses in 2007. Additionally, there were decreases of $0.5 million in stock option compensation expense, $0.6 million in professional fees related to project and legal matters, $0.2 million in charitable contributions made in 2006 and not repeated in 2007 and $0.2 million each in depreciation and consulting costs. Partially offsetting the decrease was $0.7 million in severance-related costs for employees terminated in February 2007, an increase of $0.3 million each in bonus expense and non-income taxes and $0.2 million in software license and maintenance expense. Additionally, we accrued $0.2 million for retention bonuses for employees of CCSS to remain until their termination date.

The increase in research and development expenses, both in absolute terms and as a percentage of total net revenues, was primarily due to a $0.9 million reduction in the capitalization of salaries for internal-use software projects and a $0.2 million increase in bonus expense. Partially offsetting the increase was a $0.3 million decrease in expense for third-party consultants and a $0.3 million decrease in software license and maintenance expense. Smaller decreases occurred in expenses such as depreciation and labor.

Other income, net, consisted primarily of interest income realized from our cash, cash equivalents and investments, interest expense related to capital lease obligations and foreign exchange losses. Other income, net, increased primarily due to higher interest income in 2007 as a result of higher average interest rates and cash balances.

Our effective tax rate was 37.1% and 37.6% for the year ended December 31, 2006 and 2007, respectively.

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Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

The following table presents statements of operations data with product line detail (dollars in thousands):

	Year Ended December 31,			
	2005	**2006**	**Increase (Decrease)**	
Licenses:				
Net revenues	$ 6,063	$ 3,017	$ (3,046)	(50.2%)
Costs of revenues				